

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Lapeer County Road Commission</b>	County <b>Lapeer</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>3/10/05</b>	Date Accountant Report Submitted to State: <b>6/27/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		✓	
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Stewart, Beauvais &amp; Whipple PC</b>			
Street Address <b>1979 Holland Avenue</b>	City <b>Port Huron</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature 		Date <b>6/27/05</b>	

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**ANNUAL FINANCIAL STATEMENTS**  
**WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED DECEMBER 31, 2004**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**DECEMBER 31, 2004**  
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**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners  
of Lapeer County  
Lapeer, Michigan

We have audited the accompanying basic financial statements of the Lapeer County Road Commission, a component unit of Lapeer County, Michigan, as of December 31, 2004, and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Lapeer County, Michigan, as of December 31, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 10, 2005, on our consideration of the Road Commission of Lapeer County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Lapeer County Road Commission. The schedules and tables on pages 30-34 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Lapeer County, Michigan. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

March 10, 2005

# **LAPEER COUNTY ROAD COMMISSION**

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## **A Component Unit of Lapeer County, Michigan**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Lapeer County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to provide a basis of understanding of the Lapeer County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

#### **Governmental Financial Statements**

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Lapeer County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-25 of this report.

## FINANCIAL HIGHLIGHTS

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$69,286,710 at the end of the year.

The net assets are separated into three major components, invested in capital assets net of related debt, which amounted to \$62,937,564 or 91% of net assets, restricted net assets of \$2,068,277 or 3% of net assets and finally unrestricted net assets of \$4,280,869 or 6%. The invested in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt not funded by Townships. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's on-going obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted and unrestricted net assets). The Road Commission's combined net assets increased \$4,251,902 from a year ago.

The following table presents a comparison of the net assets at December 31, 2004 and 2003 in a condensed format:

Condensed Statement of Net Assets	<u>2004</u>	<u>2003</u>
Assets		
Current and other unrestricted assets	\$ 4,845,817	\$ 4,140,642
Due from townships – MTF note agreements	2,940,000	3,430,000
Capital Assets	<u>65,915,964</u>	<u>62,038,324</u>
Total Assets	<u>73,701,781</u>	<u>69,608,966</u>
Liabilities		
Long-term liabilities outstanding	3,053,309	3,586,678
Other liabilities	<u>1,361,762</u>	<u>987,480</u>
Total Liabilities	<u>4,415,071</u>	<u>4,574,158</u>
Net Assets:		
Invested in capital assets	62,937,564	61,961,524
Restricted	2,068,277	2,897,633
Unrestricted	<u>4,280,869</u>	<u>175,651</u>
Total net assets	<u>\$ 69,286,710</u>	<u>\$ 65,034,808</u>



The following table presents a comparison of Statement Activities at December 31, 2004 and 2003 in a condensed format:

<b>Condensed Statement of Activities</b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Revenues		
Federal Sources	\$ 1,287,376	\$ 1,019,710
State Sources	8,272,833	7,674,977
Local Sources	2,041,203	2,462,105
Charges for Services and Other	<u>1,921,649</u>	<u>1,169,042</u>
	<u>13,523,061</u>	<u>12,325,834</u>
Expenses		
Maintenance	5,752,511	5,372,236
Administration	674,591	673,106
Equipment (net)	( 663,915)	( 537,923)
Other	298,710	3,153,591
Depreciation	<u>3,209,262</u>	<u>420,178</u>
	<u>9,271,159</u>	<u>9,081,188</u>
Change in Net Assets	<u>\$ 4,251,902</u>	<u>\$ 3,465,357</u>

As noted earlier, the focus of the fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$3,428,107, a decrease of \$491,363 from the prior year. \$1,314,626 of the fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that the amount is not available for new spending because \$45,204 has been prepaid and \$2,068,277 has been reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

### **BUDGETARY HIGHLIGHTS**

The Road Commission amended its 2004 budget to reflect status changes in heavy maintenance and maintenance projects related to road and bridge projects. The total final budget was \$911,500 and \$2,172,500 for revenues and expenditures, respectively, more than the original budget primarily for these reasons. The actual 2004 revenues being \$115,865 more than the amended budget is basically the result of federal projects not being initiated in 2003 for approximately \$1,900,000. The actual 2004 expenditures being \$273,998 less than the amended budget was only 2%.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** - The Road Commission had \$65,915,964 in capital assets at the end of the year. The reason for the increase from the previous year was the purchase of new Road equipment and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues.

The following table presents a summary of capital assets net of accumulated depreciation at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Land & Land Improvements	\$ 32,599,756	\$ 30,957,771
Depletable Assets	70,847	70,847
Buildings & Improvements	635,898	702,668
Equipment – Road	1,722,697	1,304,961
Equipment – Other	7,388	21,249
Infrastructure	<u>30,879,378</u>	<u>28,980,828</u>
 Total Capital Assets	 <u>\$ 65,915,964</u>	 <u>\$ 62,038,324</u>

**Long-Term Liabilities** – At the end of the current year, the Road Commission had total MTF note debt outstanding of \$2,940,000. Through agreements with several townships this debt and related interest is to be paid by them. The debt is backed by the full faith and credit of Lapeer County. Additional information on the Road Commission’s long-term liabilities may be found in Note 9 to the financial statements on pages 20-21.

### **ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

The Road Commission major revenue streams continue to be stable. Long-term state fiscal crises could affect local townships ability to be able to fund construction and heavy maintenance projects as well as routine maintenance services. This could particularly affect our shared programs.

The 2005 budget projects an original reduction in expenditures waiting for possible approval of projects by the townships. As a result, an increase in fund balance of \$1,918,073 is the preliminary projection for 2005.

### **CONTACTING THE ROAD COMMISSION MANAGEMENT**

This financial report is designed to provide a general overview of the Lapeer County Road Commission’s finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Lapeer County Road Commission, 820 Davis Lake Road, Lapeer, Michigan, 48446.

## **BASIC FINANCIAL STATEMENTS**

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2004**

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,044,120	\$ -	\$ 2,044,120
Due from other governmental units -			
State	1,270,302	-	1,270,302
Local	3,245,852	-	3,245,852
Accounts receivable	383,351	56,200	439,551
Prepaid expenditures/expenses	45,204	56,521	101,725
Inventory	684,267	-	684,267
Capital assets, net of accumulated depreciation			-
Assets not being depreciated	-	32,599,756	32,599,756
Assets being depreciated	-	33,316,208	33,316,208
Total Assets	<u>\$ 7,673,096</u>	<u>\$ 66,028,685</u>	<u>\$ 73,701,781</u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 839,465	\$ -	\$ 839,465
Accrued liabilities	121,959	-	121,959
Accrued interest payable	-	56,773	56,773
Due to other governmental units	10,959	-	10,959
Advances and deposits	332,606	-	332,606
Deferred revenue	2,940,000	( 2,940,000)	-
Noncurrent liabilities -	-	-	-
Due within one year	-	564,300	564,300
Due in more than one year	-	2,489,009	2,489,009
Total Liabilities	<u>4,244,989</u>	<u>170,082</u>	<u>4,415,071</u>
<b>Fund Balance:</b>			
Fund Balance -			
Reserved -			
Prepaid expenditures	45,204	( 45,204)	-
Primary/Local Roads	2,068,277	( 2,068,277)	-
Unreserved -			-
Undesignated	1,314,626	( 1,314,626)	-
Total Fund Balance	<u>3,428,107</u>	<u>( 3,428,107)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 7,673,096</u>		
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		62,937,564	62,937,564
Restricted for Primary/Local Roads		2,068,277	2,068,277
Unrestricted		4,280,869	4,280,869
Total Net Assets		<u>\$ 69,286,710</u>	<u>\$ 69,286,710</u>

See Notes to Financial Statements

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenues:</b>			
Permits	\$ 159,298	\$ -	\$ 159,298
Intergovernmental -			
Federal sources	1,287,376	-	1,287,376
State sources	8,272,833	-	8,272,833
Local sources	2,712,007	( 670,804)	2,041,203
Charges for services	1,456,668	-	1,456,668
Interest and rents	38,814	-	38,814
Other	266,869	-	266,869
Total Revenues	<u>14,193,865</u>	<u>( 670,804)</u>	<u>13,523,061</u>
<b>Expenditures/Expenses:</b>			
Current -			
Primary heavy maintenance	3,974,294	( 3,974,294)	-
Local heavy maintenance	2,158,078	( 2,158,078)	-
Primary maintenance	1,845,855	( 10,019)	1,835,836
Local maintenance	2,554,085	( 12,399)	2,541,686
State maintenance	1,374,989	-	1,374,989
Administrative	705,035	( 30,444)	674,591
Equipment	2,101,931	( 574,055)	1,527,876
Less equipment rental			
charged to other activities	( 2,191,791)	-	( 2,191,791)
Depreciation	-	3,209,262	3,209,262
Other	138,255	10,873	149,128
Capital Outlay	1,062,684	( 1,062,684)	-
Less: depreciation credit			
and retirements	( 709,173)	709,173	-
Debt Service -			
Principal	528,400	( 528,400)	-
Interest	159,860	( 10,278)	149,582
Total Expenditures/Expenses	<u>13,702,502</u>	<u>( 4,431,343)</u>	<u>9,271,159</u>
Excess of revenues and other financing sources over (under) expenditures	491,363	3,760,539	4,251,902
Fund Balance/Net Assets at January 1, 2004	<u>2,936,744</u>	<u>62,098,064</u>	<u>65,034,808</u>
Fund Balance/Net Assets at December 31, 2004	<u><u>\$ 3,428,107</u></u>	<u><u>\$ 65,858,603</u></u>	<u><u>\$ 69,286,710</u></u>

See Notes to Financial Statements

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Permits	\$ 150,000	\$ 160,000	\$ 159,298	\$ ( 702)
Intergovernmental -				
Federal sources	2,361,500	1,480,000	1,287,376	( 192,624)
State sources	7,300,000	7,000,000	8,272,833	1,272,833
Local sources	1,690,000	3,630,000	2,712,007	( 917,993)
Charges for services	1,000,000	1,400,000	1,456,668	56,668
Interest and rents	30,000	35,000	38,814	3,814
Other	35,000	373,000	266,869	( 106,131)
Total Revenues	<u>12,566,500</u>	<u>14,078,000</u>	<u>14,193,865</u>	<u>115,865</u>
<b>Other Financing Sources:</b>				
Note/Lease proceeds	600,000	-	-	-
Total Revenues and other financing sources	<u>13,166,500</u>	<u>14,078,000</u>	<u>14,193,865</u>	<u>115,865</u>
<b>Expenditures:</b>				
Current -				
Primary heavy maintenance	2,840,000	3,975,000	3,974,294	706
Local heavy maintenance	2,752,000	2,160,000	2,158,078	1,922
Primary maintenance	1,310,000	1,855,000	1,845,855	9,145
Local maintenance	1,802,000	2,570,000	2,554,085	15,915
State maintenance	833,000	1,375,000	1,374,989	11
Administrative	650,000	600,000	705,035	( 105,035)
Equipment - net	250,000	-	( 89,860)	89,860
Other	436,000	325,500	138,255	187,245
Capital Outlay - net	45,000	426,000	353,511	72,489
Debt Service	886,000	690,000	688,260	1,740
Total Expenditures	<u>11,804,000</u>	<u>13,976,500</u>	<u>13,702,502</u>	<u>273,998</u>
Excess of revenues and other sources over (under) expenditures	762,500	101,500	491,363	389,863
Fund Balance at January 1, 2004	<u>4,426,858</u>	<u>3,245,831</u>	<u>2,936,744</u>	<u>( 309,087)</u>
Fund Balance at December 31, 2004	<u>\$ 5,189,358</u>	<u>\$ 3,347,331</u>	<u>\$ 3,428,107</u>	<u>\$ 80,776</u>

See Notes to Financial Statements

## **NOTES TO FINANCIAL STATEMENTS**

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Lapeer County Road Commission, a component unit of the County of Lapeer, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

**A. Description of Road Commission Operations –**

The Lapeer County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Lapeer, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal awards, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government (townships) for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to eighteen (18) Townships in Lapeer County and maintains over 1,400 miles of state, local and primary roads.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**C. Assets, Liabilities, and Fund Balance or Net Assets –**

**Cash And Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of ninety days or less from the date of purchase. Cash equivalents include investment trust funds and are recorded at cost which approximates market value. The investment trust funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.



**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Inventories** - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of first-in, first-out (cost or market) or at average cost.

**Deferred Federal And State Aid** – On certain federal and state funded construction projects in the County and administered by the Michigan Department of Transportation, the Road Commission is required to pay the local portion of the project costs at the start of the project. The local portion is recorded as Deferred Aid at the time of payment. The expenditure is recognized upon notice from the Michigan Department of Transportation that construction has been completed.

**Prepaid Items** – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

**Advances From The State Of Michigan** - The State of Michigan advances funds on a State maintenance agreement it has with the Lapeer County Road Commission for equipment purchased and used in performance of the specified maintenance. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

**Accrued Vacation And Sick** - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested accumulated vacation leave upon termination for any reason, and for their vested sick leave upon retirement or death. All amounts vested are accrued in the government-wide statements (statement of net assets).

**Deferred Revenues** – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

**Equipment Rental** - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

**Long-Term Obligations** – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. MTF Note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. MTF notes payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

**Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**LAPEER COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

- A.** Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 3,428,107
Capital assets used in the governmental fund statements that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	91,085,578
Deduct – accumulated depreciation	( 25,169,614)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	( 3,053,309)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	( 56,773)
Prepaid expenses not reported in the governmental fund statements	56,521
Accrued interest receivable due from Townships not reported in the governmental fund statements	56,200
Revenues that have been deferred in the governmental fund statements because they are not “available”	<u>2,940,000</u>
Net Assets	<u>\$69,286,710</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues over expenditures – governmental fund statement	\$ 491,363
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	7,195,056
Deduct – retirements	( 97,281)
Deduct – depreciation	( 3,209,262)

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**DECEMBER 31, 2004**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):**

Revenues deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	\$ ( 661,500)
Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	528,400
Township contribution adjustment for accrual reported in the government-wide Statement of Activities when the revenue is earned and reported in the governmental fund statements only when the revenue is available	( 9,304)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	10,278
Prepaid expense adjustment not reported in the governmental fund statements	10,056
Loss on infrastructure removals not recorded in the governmental fund statements	( 10,873)
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	<u>4,969</u>
Change in Net Assets	<u>\$4,251,902</u>

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Auditing and Reporting –**

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont’d):**

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor’s Report, but also with applicable rules of the Michigan State Department of Transportation.

**Budgetary Compliance –**

The Road Commission Manager prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution. After the budget is adopted, the Manager is authorized to transfer up to 25% of a line item amount of the adopted budget, subject to the approval of the Board of County Road Commissioners at the Board meeting following the amendments. The Manager is also authorized to transfer amounts between items of the adopted budget at year end to reflect the effects of the distribution of the distributive account.

The Road Commission’s approved budget was adopted at the expenditure control level by activity. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that the government unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2004, the Road Commission had one instance where expenditures exceeded the appropriation as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

**NOTE 4 - DEPOSITS AND INVESTMENTS:**

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Lapeer County Treasurer’s Office, and in order to make disbursements, the Lapeer County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer.

In accordance with Act 20 PA 1943 as amended by Act 196 PA 1997, the County Treasurer is authorized to invest surplus funds in the following types of investments:

- a) In bonds, securities and other direct obligations of the United States or an agency or instrumentality of the United States.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):**

- b) In certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligations repurchase agreements.
- e) In bankers acceptances of United States banks.
- f) In obligations of the State of Michigan or any of the political subdivisions that at the time of purchase, are rated as investment grade by not less than one standard rating service.
- g) In mutual funds registered under the Investment Company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h) In investment pools organized under the surplus funds investment act, 367 of 1982.
- i) In investment pools organized under the local government investment pool act, 121 of 1985.

**Deposits -**

As a component unit of the Lapeer County, all the Road Commission's cash is part of the accounts maintained by Lapeer County. However, the Road Commission by State statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of December 31, 2004, the carrying amount of the Road Commission's deposits is \$1,464,979, and the bank balance is \$1,188,534 of which \$100,000 is FDIC insured.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (cont’d):**

The County believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

Due to significantly higher cash flow at certain periods during the year, the amount the Road Commission held as Cash and Cash Equivalents increases significantly. As a result, the amount of uninsured cash and cash equivalents is substantially higher at these peak periods than at year end.

**Investments -**

The Road Commission held at December 31, 2004, \$578,791 in financial institution investment pools that are not evidenced by securities that exist in physical or book entry form. The investment pool accounts are registered with the Securities and Exchange Commission and the fair value of the County's portion in the investment pools is the same as the value of the investment pool shares. The investment pool accounts have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the County may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The investment pools are recorded at cost which approximates fair value.

The following is a summary of the financial statement presentation of Deposits and Investments as of December 31, 2004:

	<u>Financial Reporting</u> Cash & Cash Equivalents
Deposits	\$ 1,464,979
Investments	<u>578,791</u>
	<u>\$ 2,043,770</u>

The caption cash and cash equivalents on the Balance Sheet also includes \$350 in petty cash.

**NOTE 5 - TOWNSHIP NOTE PROGRAMS:**

The Due From Other Governmental Units – Local includes Township Note Programs in the amount of \$2,940,000 at December 31, 2004, which represents the amount that the Townships are participating in repayment of 1997, 2000 and 2002 MTF notes. A corresponding amount has been recorded as deferred revenue in the governmental fund statements and will be recognized as revenue as payments from the Townships become available.

**LAPEER COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 6 - FEDERAL AWARDS:**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2004, the Road Commission of Lapeer County expended less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act was not performed.

Federal revenues of \$1,287,376 represent Department of Transportation of Federal Highway grant money expended on public road improvement projects under Federal Programs which were administered by the Michigan Department of Transportation.

**NOTE 7 – CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

	Balance January 1, 2004	Additions	Deletions	Adjustments and Removals	Balance December 31, 2004
Capital Assets, not being depreciated –					
Land	\$ 159,507	\$ -	\$ -	\$ -	\$ 159,507
Land improvements	30,618,218	1,641,985	-	-	32,260,203
Right of Ways	180,046	-	-	-	180,046
Total Capital Assets, not being depreciated	<u>30,957,771</u>	<u>1,641,985</u>	<u>-</u>	<u>-</u>	<u>32,599,756</u>
Capital Assets, being depreciated –					
Buildings and improvements	1,830,010	-	-	( 12,176)	1,817,834
Road Equipment	5,882,164	1,062,684	864,777	1,303	6,081,374
Shop Equipment	154,591	-	-	-	154,591
Office Equipment	507,095	-	-	-	507,095
Engineering equipment	70,700	-	-	-	70,700
Infrastructure –					
Roads	37,266,242	2,462,977	-	( 1,299,280)	38,429,939
Bridges	9,161,614	2,027,410	-	( 53,588)	11,135,436
Traffic signals	83,723	-	-	-	83,723
Depletable assets –					
Gravel pits	205,130	-	-	-	205,130
	<u>55,161,269</u>	<u>5,553,071</u>	<u>864,777</u>	<u>( 1,363,741)</u>	<u>58,485,822</u>



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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 7 – CAPITAL ASSETS – (cont'd):**

	Balance January 1, 2004	Additions	Deletions	Adjustments and Removals	Balance December 31, 2004
Less – accumulated depreciation for –					
Buildings and improvements	\$ 1,127,342	\$ 54,594	\$ -	\$ -	\$ 1,181,936
Road Equipment	4,577,203	548,970	767,496	-	4,358,677
Shop Equipment	154,539	52	-	-	154,591
Office Equipment	485,898	13,809	-	-	499,707
Engineering Equipment	70,700	-	-	-	70,700
Infrastructure –					
Roads	14,645,487	2,350,236	-	( 1,299,280)	15,696,443
Bridges	2,858,170	236,831	-	( 53,588)	3,041,413
Traffic signals	27,094	4,770	-	-	31,864
Depletable Assets	<u>134,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,283</u>
	<u>24,080,716</u>	<u>3,209,262</u>	<u>767,496</u>	<u>( 1,352,868)</u>	<u>25,169,614</u>
 Total Capital Assets, being depreciated, net	 <u>31,080,553</u>	 <u>2,343,809</u>	 <u>97,281</u>	 <u>(10,873)</u>	 <u>33,316,208</u>
 Governmental activity capital assets, net	 <u>\$ 62,038,324</u>	 <u>\$ 3,985,794</u>	 <u>\$ 97,281</u>	 <u>\$ (10,873)</u>	 <u>\$65,915,964</u>

The State of Michigan does not allow depreciation to be recorded in the governmental fund statements on salt shed and salt lagoon construction costs reimbursed by the State. However, the depreciation of \$5,553 on the salt sheds and lagoon is recorded in the government-wide statement of activities. Total depreciation for the year ended December 31, 2004 was \$3,209,262.

**NOTE 8 - ADVANCES AND DEPOSITS:**

Advances and Deposits of \$332,606 at December 31, 2004, represent money advanced by the State of Michigan, under the maintenance contract the Road Commission has with the State for equipment purchases, advances and deposits from Townships, contractors and individuals for various projects. The State advance is adjusted annually by the State, and must be repaid if the maintenance contract is cancelled. The following is a summary of the balance by source and use:

State -	
Equipment	\$ <u>175,212</u>
Local -	
Other Governmental Units -	
Township advances	15,107
Contractors and Individuals -	
Permits	127,318
Other	<u>14,969</u>
	<u>157,394</u>
	 <u>\$ 332,606</u>

**LAPEER COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 9 – LONG-TERM LIABILITIES:**

The Road Commission has the following long-term liabilities outstanding at December 31, 2004:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Due Within One Year
1997 MTF Note	\$ 280,000	\$ -	\$ 70,000	\$ 210,000	\$ 70,000
2000 MTF Note	1,540,000	-	220,000	1,320,000	220,000
2000 MTF Note	490,000	-	70,000	420,000	70,000
2002 MTF Notes	400,000	-	50,000	350,000	50,000
2002 MTF Notes	720,000	-	80,000	640,000	80,000
Capital leases – road equipment	76,800	-	38,400	38,400	38,400
Accrued vacation	<u>79,878</u>	<u>156,841</u>	<u>161,810</u>	<u>74,909</u>	<u>35,900</u>
	<u>\$3,586,678</u>	<u>\$ 156,841</u>	<u>\$ 690,210</u>	<u>\$3,053,309</u>	<u>\$ 564,300</u>

Significant details regarding outstanding long-term liabilities are presented below:

**MTF Note – Series 1997**

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 1997, dated October 1, 1997, in the original amount of \$700,000. The payments are due in annual installments on August 1 of \$70,000 through 2007, with interest ranging from 4.7% to 4.9% due on February 1 and August 1 of each year. At December 31, 2004, the outstanding principal balance is \$210,000.

**MTF Note – Series 2000**

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2000, dated May 11, 2000, in the original amount of \$2,200,000. Principal payments are due in annual installments on August 1 of \$220,000 through 2010, with interest ranging from 4.7% to 5.0% due on February 1 and August 1 of each year. At December 31, 2004, the outstanding principal balance is \$1,320,000.

**MTF Note – Series 2000 B**

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2000B, dated November 21, 2000 in the original amount of \$700,000. Principal payments are due in annual installments on August 1 of \$70,000 through 2010, with interest ranging from 4.8% to 5.5% due on February 1 and August 1 of each year. At December 31, 2004, the outstanding balance is \$420,000.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 9 – LONG-TERM LIABILITIES – (cont'd):**

**MTF Note – Series 2002**

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2002, dated April 1, 2002, in the original amount of \$500,000. Principal payments are due in annual installments on August 1 of \$50,000 through 2011, with interest ranging from 4.15% to 4.60% due on February 1 and August 1 of each year. At December 31, 2004, the outstanding principal balance is \$350,000.

**MTF Note – Series 2002 B**

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2002B, dated May 15, 2002 in the original amount of \$800,000. Principal payments are due in annual installments on August 1 of \$80,000 through 2012, with interest ranging from 3.25% to 4.10% due on February 1 and August 1 of each year. At December 31, 2004, the outstanding balance is \$640,000.

**Capital Leases -**

The Road Commission is obligated for capital lease agreements to finance the acquisition of certain road equipment. The minimum annual payments for the capital leases are summarized in Note 10.

**Accrued Vacation -**

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payment for unused vacation under formulas and conditions specified in the contracts. The dollar amount of these vested rights, which has been accrued on the financial statements in the government-wide statements, amounts to approximately \$74,909 at December 31, 2004.

The annual requirements to amortize long-term liabilities outstanding at December 31, 2004, except accrued vacation, are as follows:

	<u>MTF Note - Series 1997</u>		<u>MTF Notes-Series 2000</u>		<u>MTF Notes – Series 2002</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2005	\$ 70,000	\$ 10,115	\$ 290,000	\$ 92,105	\$ 130,000	\$ 39,260	\$ 631,480
2006	70,000	6,790	290,000	77,100	130,000	34,210	608,100
2007	70,000	3,430	290,000	62,190	130,000	29,160	584,780
2008	-	-	290,000	47,025	130,000	24,110	491,135
2009	-	-	290,000	31,605	130,000	19,235	470,840
2010-2012	-	-	<u>290,000</u>	<u>15,930</u>	<u>340,000</u>	<u>26,185</u>	<u>672,115</u>
	<u>\$ 210,000</u>	<u>\$ 20,335</u>	<u>\$1,740,000</u>	<u>\$ 325,955</u>	<u>\$ 990,000</u>	<u>\$ 172,160</u>	<u>\$ 3,458,450</u>

**LAPEER COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 10 - CAPITAL LEASES:**

The Road Commission has entered into lease purchase agreements to finance the acquisition of an excavator with the original cost of \$115,200. The lease agreement qualifies as a capital lease for accounting purposes (agreement provides for either title transfer or bargain purchase option at end of the lease terms) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The net book value of the excavator at December 31, 2004 is \$54,916.

The following is a schedule of future minimum lease payments, together with the present value of the minimum lease payments as of December 31, 2004:

Year Ending <u>December 31,</u> 2005	\$ 39,725
Total minimum lease payments	39,725
Less amount representing interest	<u>1,325</u>
Present value of minimum lease payments	\$ <u>38,400</u>

**NOTE 11 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Lapeer County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the Board of County Road Commissioners requires employees to contribute 0%-5% of their annual compensation depending on their job category. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2003 was 0% - 15.38% depending on employees' job category. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 11 - EMPLOYEE PENSION PLAN – (cont'd):**

**Annual Pension Costs -**

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$272,960 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or B-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

**Three-Year Trend Information**

Fiscal Year Ending <u>December 31,</u>	Annual Pension <u>Costs (APC)</u>	Percentage of APC <u>Contribution</u>	Net Pension <u>Obligation</u>
2002	\$ 211,995	100%	-
2003	311,293	100	-
2004	272,960	100	-

**Schedule of Funding Progress**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Accrued Liability (AAL) Entry Age <u>(b)</u>	Actuarial (Overfunded) Accrued Liability (UAAL) <u>(b-a)</u>	Unfunded Funded Ratio (AAL) <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>[(b-a)/c]</u>
2001	\$ 6,418,663	\$ 9,234,499	\$ 2,815,836	70%	\$ 2,216,994	127%
2002	6,381,297	9,540,149	3,158,852	67	2,329,568	136
2003	6,646,644	10,124,306	3,477,662	66	2,426,310	143

**NOTE 12 - POSTEMPLOYMENT BENEFITS:**

In addition to the pension benefits described in Note 11, the Lapeer County Road Commission provides postemployment health care, limited optical/dental reimbursement, prescription reimbursement, and life insurance to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. These expenditures are recognized on a pay-as-you-go basis. For the year ended December 31, 2004, health care costs amounted to approximately \$272,960 for 41 eligible participants, \$9,153 for optical/dental reimbursement for approximately 41 eligible participants, \$23,164 for prescription reimbursement for approximately 41 eligible participants and \$4,885 for life insurance costs for approximately 35 eligible participants.

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 13 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:**

In the normal course of its operations, the Lapeer County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also as a part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State, cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE 14 - RISK MANAGEMENT:**

The Road Commission provides for its employees dental/optical reimbursement programs for regular full-time employees, spouses and dependent children under nineteen (19) years of age. Based on their bargaining unit employees may be reimbursed for dental and/or optical up to \$575 or \$650 for bills or apply their reimbursement amount to the cost of the insurance premium.

The Road Commission carries commercial insurance for all risks of loss, including life, disability and health insurance, workers' compensation, automobile liability, errors or omissions liability and bodily injury, property damage, personal injury liability and property (building and grounds). The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

**NOTE 15 – EQUIPMENT EXPENDITURE/EXPENSE NET BALANCE:**

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure/expense in the various maintenance activities. An expenditure/expense credit is reported as an offset against the equipment expenditure/expense activities. Accordingly, the equipment rental does not affect total expenditures/expense or the available operating equity of the Road Commission's General Operating Fund. The net balance for the year ended December 31, 2004 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 1,383,947	\$ 834,977
Indirect	482,095	457,010
Operating	<u>235,889</u>	<u>235,889</u>
	2,101,931	1,527,876
Less-equipment rental	<u>(2,191,791)</u>	<u>2,191,791</u>
	<u><u>\$ ( 89,860)</u></u>	<u><u>\$ ( 663,915)</u></u>

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE 16 – CAPITAL OUTLAY EXPENDITURES BALANCE:**

On the governmental financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The balance at December 31, 2004 consists of the following:

Capital Outlay –	
Land improvements, building	
and equipment	\$ 1,062,684
Less - depreciation/depletion	( 611,892)
- retirements	<u>( 97,281)</u>
	<u>\$ 353,511</u>

## **SUPPLEMENTARY INFORMATION**



**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**DETAIL SCHEDULE OF REVENUES**  
**GENERAL OPERATING FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2004**

	<u>2004</u>	<u>2003</u>
<b>Revenues:</b>		
Permits	\$ 159,298	\$ 110,853
Federal Sources -		
Federal aid secondary	<u>1,287,376</u>	<u>1,019,710</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	4,436,844	4,375,255
Local roads	2,494,881	2,383,661
Primary urban roads	146,852	133,085
Local urban roads	50,133	40,690
Federal Aid Funds sold to State	920,771	487,568
Economic Development Fund	-	145,414
Critical Bridge	<u>213,352</u>	<u>99,304</u>
	<u>8,272,833</u>	<u>7,674,977</u>
Local Sources -		
Township contributions	2,481,751	2,700,509
County appropriation	230,256	220,711
Other contributions	<u>-</u>	<u>128,313</u>
	<u>2,712,007</u>	<u>3,049,533</u>
Charges for Services -		
Trunkline maintenance	1,100,451	846,550
Trunkline nonmaintenance	274,538	141,899
Salvage sales	4,890	7,622
Other	<u>76,789</u>	<u>-</u>
	<u>1,456,668</u>	<u>996,071</u>
Interest and rents	<u>38,814</u>	<u>40,841</u>
Other -		
Land and building sales	-	7,971
Gain on equipment disposal	266,869	31,512
Other	<u>-</u>	<u>281</u>
	<u>266,869</u>	<u>39,764</u>
 Total Revenues	 <u><u>14,193,865</u></u>	 <u><u>12,931,749</u></u>

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**DETAIL SCHEDULE OF EXPENDITURES**  
**GENERAL OPERATING FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2004**

	<u>2004</u>	<u>2003</u>
<b>Expenditures:</b>		
Heavy Maintenance -		
Primary roads and structures	\$ 3,974,294	\$ 3,757,826
Local roads and structures	<u>2,158,078</u>	<u>2,459,449</u>
	6,132,372	6,217,275
Maintenance -		
Primary roads and structures,		
winter and traffic control	1,845,855	1,803,742
Local roads and structures,		
winter and traffic control	<u>2,554,085</u>	<u>2,559,507</u>
	4,399,940	4,363,249
State Maintenance -		
Trunkline maintenance	1,100,451	868,795
Truckline nonmaintenance	<u>274,538</u>	<u>141,995</u>
	1,374,989	1,010,790
Administrative -		
Administration	859,350	833,677
Less - handling	( 17,156)	( 12,708)
- overhead	( 136,266)	( 123,860)
- purchase discounts	<u>( 893)</u>	<u>( 1,897)</u>
	705,035	695,212
Equipment -		
Direct	1,383,947	1,411,782
Indirect	482,095	499,346
Operating	235,889	188,005
Less - equipment rental	<u>( 2,191,791)</u>	<u>( 2,023,883)</u>
	( 89,860)	75,250
Other -		
Services	<u>138,255</u>	<u>236,018</u>
Capital Outlay -		
Land improvements, building		
and equipment	1,062,684	175,057
Less - depreciation	( 611,892)	( 648,584)
- retirements	<u>( 97,281)</u>	<u>( 7,807)</u>
	353,511	( 481,334)
Debt Service -		
Principal retirement	528,400	718,400
Interest and fiscal charges	<u>159,860</u>	<u>200,301</u>
	688,260	918,701
Total Expenditures	<u>\$ 13,702,502</u>	<u>\$ 13,035,161</u>

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BY FUND BALANCE SUB-ACCOUNTS**  
**GENERAL OPERATING FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
<b>Revenues:</b>				
Licenses and permits	\$ -	\$ -	\$ 159,298	\$ 159,298
Intergovernmental -				
Federal Sources	-	-	1,287,376	1,287,376
State Sources	5,459,714	2,813,119	-	8,272,833
Local Sources	-	2,481,751	230,256	2,712,007
Charges for Services	1,374,989	-	81,679	1,456,668
Interest & rents	-	-	38,814	38,814
Other	-	-	266,869	266,869
Total Revenues	<u>6,834,703</u>	<u>5,294,870</u>	<u>2,064,292</u>	<u>14,193,865</u>
<b>Expenditures:</b>				
Heavy Maintenance	3,974,294	2,158,078	-	6,132,372
Maintenance	1,845,855	2,554,085	-	4,399,940
Other -				
Trunkline maintenance	1,100,451	-	-	1,100,451
Trunkline nonmaintenance	274,538	-	-	274,538
Administrative - net	389,602	315,433	-	705,035
Equipment - net	( 45,128)	( 44,031)	( 701)	( 89,860)
Other	-	-	138,255	138,255
Capital outlay - net	-	-	353,511	353,511
Debt principal	206,076	58,124	264,200	528,400
Interest	62,345	17,585	79,930	159,860
Total Expenditures	<u>7,808,033</u>	<u>5,059,274</u>	<u>835,195</u>	<u>13,702,502</u>
Excess of revenues and other sources over (under) expenditures	( 973,330)	235,596	1,229,097	491,363
Fund Balance at January 1, 2004	<u>1,661,555</u>	<u>1,144,456</u>	<u>130,733</u>	<u>2,936,744</u>
Fund Balance at December 31, 2004	<u>\$ 688,225</u>	<u>\$ 1,380,052</u>	<u>\$ 1,359,830</u>	<u>\$ 3,428,107</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of County Road  
Commissioners of Lapeer County  
Lapeer, Michigan

We have audited the financial statements of the Lapeer County Road Commission as of and for the year ended December 31, 2004, and have issued our report thereon, dated March 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financing Reporting**

In planning and performing our audit, we considered Lapeer County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lapeer County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of County Road Commissioners of Lapeer County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

March 10, 2005

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**GENERAL HISTORY**  
**REVENUES BY SOURCE**  
**YEARS ENDED 1995 THROUGH 2004**  
**(UNAUDITED)**

<u>Year Ended</u>	<u>Permits</u>	<u>Federal Sources</u>	<u>State Sources</u>	<u>Local Sources</u>	<u>Charge for Services</u>	<u>Interest and Rents</u>	<u>Other</u>	<u>Total Revenue</u>
1995	\$ 223,089	\$ 1,195,180	\$ 5,275,726	\$ 2,044,800	\$ 971,754	\$ 71,678	\$ 99,650	\$ 9,881,877
1996	179,679	831,506	5,571,025	1,987,717	1,472,671	96,122	86,786	10,225,506
1997	198,133	106,075	5,428,972	2,336,485	1,213,276	99,433	299,549	9,681,923
1998	197,083	531,115	7,419,428	1,993,918	1,061,902	145,305	578,962	11,927,713
1999	163,643	861,970	6,330,147	1,845,805	2,132,293	95,778	147,867	11,577,503
2000	178,381	170,547	7,105,044	1,775,046	1,297,314	156,941	437,679	11,120,952
2001 Restated	126,410	350,435	8,492,188	2,250,882	876,740	85,070	381,664	12,563,389
2002	143,782	386,961	7,735,282	2,832,307	964,866	34,394	32,564	12,130,156
2003	110,853	1,019,710	7,674,977	2,828,822	996,071	40,841	39,764	12,711,038
2004	159,298	1,287,376	8,272,833	2,712,007	1,456,668	38,814	266,869	14,193,865

Note: The revenue reported above includes the operating revenues of the Road Commission.  
Other Financing Sources have been excluded from all years.

Table 1

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**GENERAL HISTORY**  
**OPERATING EXPENDITURES BY ACTIVITY**  
**YEARS ENDED 1995 THROUGH 2004**  
**(UNAUDITED)**

<u>Year Ended</u>	<u>Heavy Maintenance</u>	<u>Maintenance</u>	<u>State Trunkline</u>	<u>Administration</u>	<u>Equipment</u>	<u>Other</u>	<u>Total Operating Expenditures</u>
1995	\$ 3,615,726	\$ 3,456,436	\$ 927,073	\$ 300,448	\$ 264,543	\$ 51,436	\$ 8,615,662
1996	3,338,944	3,557,732	1,156,670	349,890	456,864	446,852	9,306,952
1997	3,224,683	3,529,576	959,923	434,655	223,533	173,207	8,545,577
1998	6,967,637	3,670,686	1,001,727	487,810	( 136,357)	176,522	12,168,025
1999	4,401,563	2,763,839	1,945,359	419,599	( 14,212)	123,340	9,639,488
2000	8,938,203	3,195,197	1,270,425	507,553	94,009	355,178	14,360,565
2001	5,913,375	3,779,530	813,544	580,825	316,712	184,085	11,588,071
2002	6,070,342	3,804,373	1,106,322	544,432	511,309	576,991	12,613,769
2003	6,217,275	4,363,249	1,010,790	695,212	75,250	236,018	12,597,794
2004	6,132,372	4,399,940	1,374,989	705,035	( 89,860)	138,255	12,660,731

Note: The expenditures reported above include the current operating expenditures of the Road Commission.  
Expenditures for capital outlay and debt service have been excluded from all years.

Table 2

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**NET CAPITAL OUTLAY**  
**YEARS ENDED 1995 THROUGH 2004**  
**(UNAUDITED)**

Year Ended	Land Improvements Building and Equipment	Less Depreciation	Less Retirements	Net Capital Outlay
1995	\$ 542,464	\$ (644,293)	\$ (34,851)	\$ (136,680)
1996	83,684	( 554,507)	( 72,089)	( 542,912)
1997	747,323	( 465,299)	( 80,743)	201,281
1998	377,243	( 467,545)	( 6,276)	( 96,578)
1999	1,018,826	( 445,668)	( 25)	573,133
2000	762,130	( 656,938)	( 30,377)	74,815
2001	1,045,038	( 640,724)	( 91,910)	312,404
2002	559,032	( 752,753)	( 6,368)	( 200,089)
2003	175,057	( 648,584)	( 7,807)	( 481,334)
2004	1,062,684	( 611,892)	( 97,281)	353,511

Table 3

**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**LONG TERM DEBT**

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
LONG-TERM DEBT TO MOTOR VEHICLE HIGHWAY FUNDS - ACT 51**

**YEARS ENDED 1995 THROUGH 2004  
(UNAUDITED)**

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Motor Vehicle Highway Funds Act 51 (1)</u>	<u>Ratio of Debt Service to MVHF - Act 51</u>
1995	\$ 874,923	\$ 385,181	\$ 1,260,104	\$ 4,858,710	25.93%
1996	947,003	267,648	1,214,651	4,766,923	25.48%
1997	1,243,770	198,363	1,442,133	5,129,923	28.11%
1998	992,860	170,478	1,163,338	6,261,409	18.58%
1999	733,616	111,507	845,123	6,100,162	13.85%
2000	478,882	102,796	581,678	6,593,746	8.82%
2001	1,063,714	214,580	1,278,294	6,572,090	19.45%
2002	1,212,351	189,085	1,401,436	6,329,245	22.14%
2003	718,400	200,301	918,701	6,932,691	13.25%
2004	<u>528,400</u>	<u>159,860</u>	<u>688,260</u>	<u>7,128,710</u>	9.65%
Total	<u>\$ 8,793,919</u>	<u>\$ 1,999,799</u>	<u>\$ 10,793,718</u>	<u>\$ 60,673,609</u>	<u>17.79%</u>

Note:

- (1) Motor Vehicle Highway Funds - Act 51, represent the amount received from the State of Michigan as the distribution of gas and weight taxes that have been designated for Primary and Local Road expenditures. The amount, however, does not include an amount of \$10,000 per year in Motor Vehicle Highway Fund - Act 51 which has been designated for engineering expenditures.

Table 4



**LAPEER COUNTY ROAD COMMISSION**  
**A Component Unit of Lapeer County, Michigan**

**LONG TERM DEBT**

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR  
LONG-TERM DEBT TO TOTAL OPERATING EXPENDITURES**

**YEARS ENDED 1995 THROUGH 2004  
(UNAUDITED)**

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total Operating Expenditures (1)</u>	<u>Ratio of Debt Service to Total Operating Expenditures</u>
1995	\$ 874,923	\$ 385,181	\$ 1,260,104	\$ 8,615,662	14.63%
1996	947,003	267,648	1,214,651	9,306,952	13.05%
1997	1,243,770	198,363	1,442,133	8,545,577	16.88%
1998	992,860	170,478	1,163,338	12,168,025	9.56%
1999	733,616	111,507	845,123	9,639,488	8.77%
2000	478,882	102,796	581,678	14,360,565	4.05%
2001	1,063,714	214,580	1,278,294	11,588,071	11.03%
2002	1,212,351	189,085	1,401,436	12,613,769	11.11%
2003	718,400	200,301	918,701	12,597,794	7.29%
2004	<u>528,400</u>	<u>159,860</u>	<u>688,260</u>	<u>12,660,731</u>	5.44%
Total	<u>\$ 8,793,919</u>	<u>\$ 1,999,799</u>	<u>\$ 10,793,718</u>	<u>\$ 112,096,634</u>	<u>9.63%</u>

Note:

(1) Operating expenditures do not include expenditures for capital outlay as well as debt service.

Table 5